

## Frequently Asked Questions (FAQs) on Surcharge Tax levied under the Surcharge Tax Act

### 1. What is the Surcharge Tax?

According to the Surcharge Tax Act No. 14 of 2022; any individual, partnership or company, whose taxable income calculated in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, exceeds Rs. 2,000 million, for the year of assessment, commenced on April 1, 2020, at the rate of 25% on the taxable income of such individual, partnership or company, for such a year of assessment.

### 2. Is this Surcharge Tax Act substantially enacted as of 31<sup>st</sup> March 2022?

**No.**

The second reading of the Surcharge Tax Bill was held on 7<sup>th</sup> April 2022, and the Speaker certified the bill on 8<sup>th</sup> April 2022.

### 3. What is the Accounting implication of the Surcharge Tax for financial statements ending on or before 31<sup>st</sup> March 2022?

There is no adjustment in the financial statements ending on or before 31<sup>st</sup> March 2022 from the Surcharge Tax imposed under the Surcharge Tax Act No. 14 of 2022. However, companies would disclose the financial impact of the surcharge tax, in those financial statements if authorized for issue on or after 7<sup>th</sup> April 2022.

### 4. Does CA Sri Lanka issue the Statement of Alternative Treatment (SoAT) on how to account for Surcharge Tax in the financial statements starting on or after 1<sup>st</sup> January 2022?

According to Section 6 of the Surcharge Tax Act No. 14 of 2022, *“Notwithstanding any provision to the contrary in any other written law, the tax levied under this Act shall be deemed to be an expenditure in the financial statement relating to the year of assessment commenced on April 1, 2020.”*

Therefore, CA Sri Lanka would be required to issue a SoAT to the existing financial reporting framework in order to reflect the surcharge tax levied under the Surcharge Tax Act in the Financial Statements of a Company.

Please [click here](#) to view Surcharge Tax Act No. 14 of 2022.